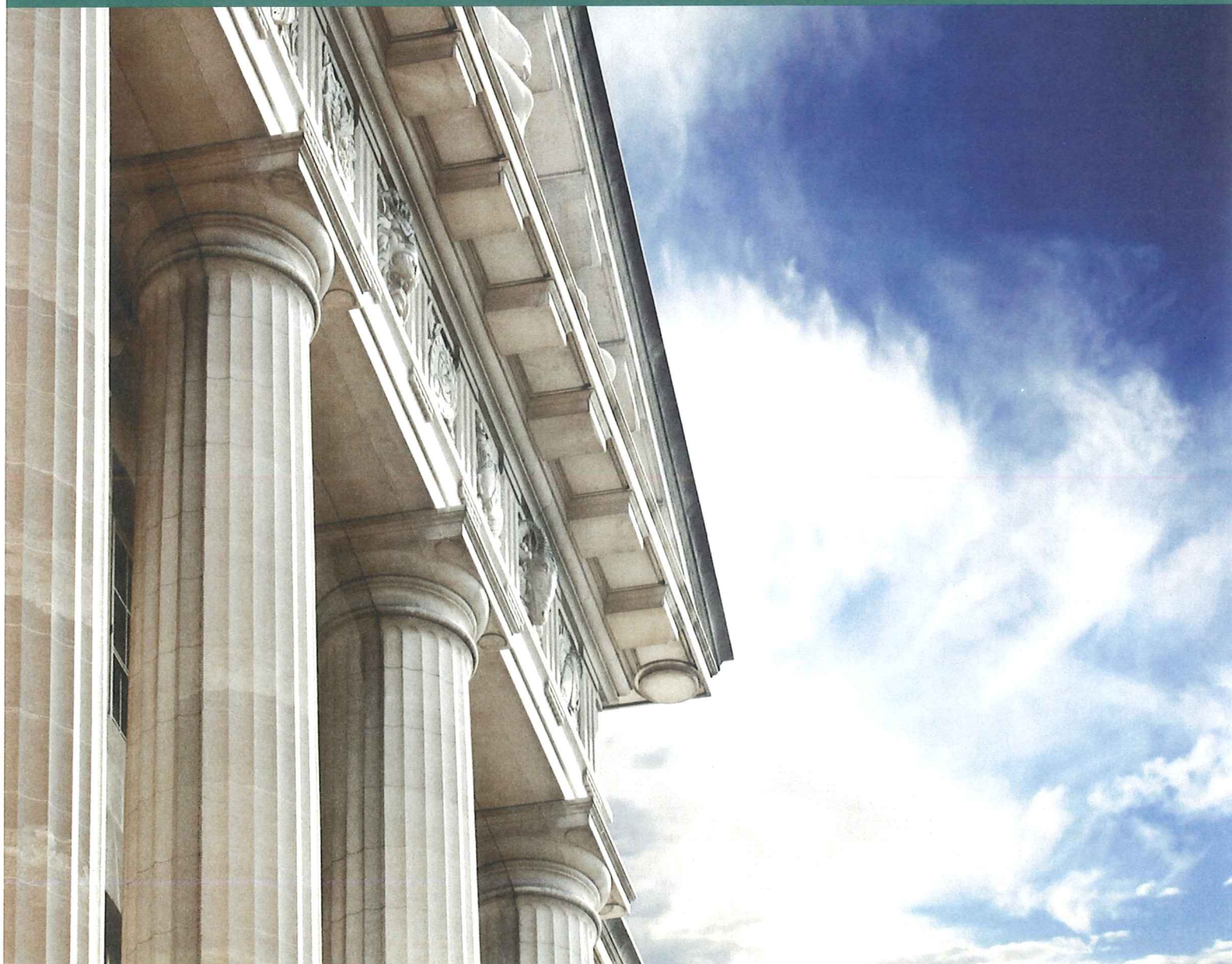




York County Employees' Retirement System

**Financial Accounting Report on Governmental
Accounting Standards Board No. 67 & 68 for the
2018 Measurement Period**





Prepared by:

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for

York County Employees' Retirement Board

May 2, 2019

CONFIDENTIAL



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I. Introduction

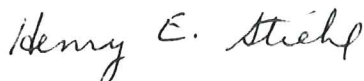
The primary purpose of this report is to comply with the financial reporting requirements under GASB Statement No. 67 (Financial Reporting for Pension Plans) and GASB Statement No. 68 (Accounting and Financial Reporting for Pensions) of the York County Employees' Retirement System for the 2018 measurement period.

On the basis of the actuarial methods, assumptions and major plan provisions summarized in this report and in reliance on the member data and statement of the Fund's assets furnished by the County, to the best of our knowledge the information in this report is complete and accurate.

To the best of our knowledge, this report is complete and accurate and all costs and liabilities have been determined in conformance with generally accepted actuarial principles, and on the basis of actuarial assumptions and methods which are reasonable (taking into account past experience under the plan and reasonable future expectations) and which represent our best estimate of anticipated experience under the plan.

Respectfully submitted,


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YORK COUNTY EMPLOYEES' RETIREMENT SYSTEM

Statement of Fiduciary Net Position December 31, 2018

	<u>2018</u>
Assets	
Cash and cash equivalents	\$ 5,924,404
Receivables:	
Contributions	0
Investment income	0
Other	0
Total receivables	<u>0</u>
Investments:	
Fixed income securities	98,688,411
Domestic equities	46,692,120
International equities	0
Real estate/Alternative	<u>220,366,476</u>
Total investments	<u>365,747,007</u>
Total assets	<u>371,671,411</u>
Liabilities	
Investment management fees	0
Other	0
Total liabilities	<u>0</u>
Net position restricted for pensions	<u>\$ 371,671,411</u>



YORK COUNTY EMPLOYEES' RETIREMENT SYSTEM

Statement of Changes in Fiduciary Net Position for the Year Ended December 31, 2018

Additions	<u>2018</u>
Contributions:	
County	\$ 15,619,704
Member	6,347,246
Other	<u>0</u>
Total contributions	<u>21,966,950</u>
Investment income:	
Net increase in fair value of investments	(20,306,252)
Interest and dividends	3,539,499
<u>Less</u> investment expense	<u>0</u>
Net investment income	(16,766,753)
Other	<u>0</u>
Total additions	<u>5,200,197</u>
Deductions	
Benefit payments, including refunds of member contributions	25,347,321
Administrative expense	0
Other	<u>0</u>
Total deductions	<u>25,347,321</u>
Net increase in net position	(20,147,124)
Net position restricted for pensions	
Beginning of year	<u>391,818,535</u>
End of year	<u>\$ 371,671,411</u>



Notes to the Financial Statements for the Year Ended December 31, 2018

Summary of Significant Accounting Policies: *Method used to value investments.* Investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Real estate assets are reported at fair value utilizing an income approach to valuation. By contract, an independent appraisal is obtained once every year to determine the fair market value of the real estate assets.

Plan Description: *Plan administration.* The Retirement Board administers the York County Employees Pension Plan - a single-employer defined benefit pension plan that covers all employees of the County.

Management of the Plan is vested in the Board, which consists of five members - three elected County Commissioners, the County Controller and the County Treasurer.

Plan membership. For the 2018 measurement period, pension plan membership consisted of the following:

Inactive plan members or beneficiaries currently receiving benefits as of January 1	1,242
Inactive plan members entitled to but not yet receiving benefits as of January 1	239
Active plan members as of January 1	2,405
Total	3,886

Benefits provided. York County Employees Pension Plan provides retirement, disability, and death benefits. Retirement benefits for plan members are calculated as a percent of the member's highest 3-year average salary times the member's years of service depending on class basis. Plan members with 20 years of service are eligible to retire at age 55. Plan members that have attained age 60 are eligible to retire. All plan members are eligible for disability benefits after 5 years of service if disabled while in service and unable to continue as a county employee. Disability retirement benefits are equal to 25% of highest average salary at time of retirement. Death benefits for a member who dies with 10 years of service prior to retirement is the total present value of member's retirement paid in a lump sum. A plan member who leaves County service with less than 5 years of service may withdraw his or her contributions, plus any accumulated interest.



Notes to the Financial Statements for the Year Ended December 31, 2018 (continued)

On an ad hoc basis, cost-of-living adjustments to each member's retirement allowance shall be reviewed at least once in every three years subsequent to the member's retirement date. The adjustment, should the County elect to give one, is a percentage of the change in the Consumer Price Index.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation for the 2018 measurement period (see the discussion of the pension plan's investment policy) are summarized in the following table:

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic equity	5.4-6.4%
International equity	5.5-6.5%
Fixed income	1.3-3.3%
Real estate	4.5-5.5%
Cash	0.0-1.0%

Discount rate. The discount rate used to measure the total pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that County contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability (i.e. no depletion date is projected to occur).



**Notes to the Financial Statements
for the Year Ended December 31, 2018 (continued)**

Changes in the Net Pension Liability / (Asset)

	Increase/(Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability/(Asset) (a) - (b)
Balances as of December 31, 2017	\$ 410,699,164	\$ 391,818,535	\$ 18,880,629
Changes for the Year:			
1. Total Service Cost	11,360,395		11,360,395
2. Interest	30,372,926		30,372,926
3. Changes of Benefit Terms	-		-
4. Differences Between Expected and Actual Experience	(1,674,234)		(1,674,234)
5. Changes of Assumptions	11,003,500		11,003,500
6. Contributions - Employer		15,619,704	(15,619,704)
7. Contributions – Member		6,347,246	(6,347,246)
8. Net Investment Income		(16,766,753)	16,766,753
9. Benefit Payments, Including Refunds of Member Contributions	(25,347,321)	(25,347,321)	-
10. Plan Administrative Expenses (we excluded inv. advisory fees)		-	-
11. Other Changes		-	-
Net Changes	<u>\$ 25,715,266</u>	<u>\$ (20,147,124)</u>	<u>\$ 45,862,390</u>
Balances as of December 31, 2018	<u><u>\$ 436,414,430</u></u>	<u><u>\$ 371,671,411</u></u>	<u><u>\$ 64,743,019</u></u>



**Notes to the Financial Statements
for the Year Ended December 31, 2018 (continued)**

Sensitivity of the net pension liability to changes in the discount rate. The following presents the net pension liability of the County, calculated using the discount rate of 7.25 percent, as well as what the County's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.25 percent) or 1-percentage-point higher (8.25 percent) than the current rate:

	1% Decrease (<u>6.25%</u>)	Current Discount Rate (<u>7.25%</u>)	1% Increase (<u>8.25%</u>)
County's net pension liability	\$120,185,265	\$64,743,019	\$18,740,286

Contributions. An actuarially determined contribution is recommended by the plan actuary. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by plan members during the year, with an additional amount to finance an unfunded accrued liability. For the 2018 measurement period, the active member contribution rate was 5.0 percent of annual pay, and the County average contribution rate was 13.58 percent of annual payroll.

Investments: *Investment policy.* The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the Board by a majority vote of its members. It is the policy of the Board to pursue an investment strategy that reduces risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes. The following was the Board's asset allocation policy for the 2018 measurement period:

<u>Asset Class</u>	<u>Target Allocation</u>
Domestic equity	47%
International equity	19
Fixed income	28
Real estate/Alternative	6
Cash	<u>0</u>
Total	<u>100%</u>

Concentrations. [If the pension plan held investments (other than those issued or explicitly guaranteed by the U.S. government) in any one organization that represent 5 percent or more of the pension plan's fiduciary net position, the pension plan should disclose information required by paragraph 30b(b) of Statement 67.]



Notes to the Financial Statements for the Year Ended December 31, 2018 (continued)

Rate of return. For the 2018 measurement period, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was (4.12)%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Net Pension Liability of the County - The components of the net pension liability of the County for the 2018 measurement period were as follows:

Total pension liability	\$436,414,430
Plan fiduciary net position	<u>371,671,411</u>
County's net pension (asset)/liability	<u>\$ 64,743,019</u>
Plan fiduciary net position as a percentage of the total pension liability	85.16%

Actuarial assumptions. The total pension liability was determined by an actuarial valuation for the 2018 measurement period at January 1 and rolled-forward to December 31 using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Salary increases	4.0 percent, average including inflation
Investment rate of return	7.25 percent, net of pension plan investment expense, including inflation

Mortality rates were based on the RP-2013 Annuitant and Non- Annuitant Mortality Tables for Males and Females with no projected improvement.

The actuarial assumptions used in the valuation for the 2018 measurement period were based on past experience under the plan and reasonable future expectations which represent our best estimate of anticipated experience under the plan. An actuarial experience study was performed during 2016; however, no modifications to assumptions were made as a result.

No ad hoc postemployment benefit changes were included in future liability.



Schedule of Changes in the County's Net Pension Liability and Related Ratios Last 10 Fiscal Years

	2014	2015	2016	2017	2018	20xx	20xx	20xx	20xx
Total pension liability									
Service cost (includes member contributions)	\$ 11,745,927	\$ 12,275,435	\$ 12,130,409	\$ 12,446,053	\$ 11,360,395				
Interest	24,577,847	26,407,762	27,474,330	29,133,132	30,372,926				
Changes of benefit terms	-	-	-	-	-				
Differences between expected and actual experience	579,287	4,677,261	(5,106,050)	2,154,502	(1,674,234)				
Changes of assumptions	-	-	-	-	11,003,500				
Benefit payments, including refunds of member contributions	(16,122,678)	(18,118,567)	(20,190,952)	(19,591,885)	(25,347,321)				
Other	-	-	-	-	-				
Net change in total pension liability	20,780,383	25,241,890	14,307,737	24,141,802	25,715,266				
Total pension liability – beginning	326,227,352	347,007,735	372,249,625	386,557,362	410,699,164				
Total pension liability – ending (a)	<u>\$347,007,735</u>	<u>\$372,249,625</u>	<u>\$386,557,362</u>	<u>\$410,699,164</u>	<u>\$436,414,430</u>				
Plan fiduciary net position									
Contributions – employer	\$ 10,000,000	\$ 9,400,000	\$ 12,035,000	\$ 12,215,000	\$ 15,619,704				
Contributions – member	5,760,524	5,817,678	5,965,399	6,084,625	6,347,246				
Net investment income	19,368,343	2,596,962	20,917,581	55,437,388	(16,766,753)				
Benefit payments, including refunds of member contributions	(16,122,678)	(18,118,567)	(20,190,952)	(19,591,885)	(25,347,321)				
Administrative expense	-	-	-	-	-				
Other	-	-	3,250	-	-				
Net change in plan fiduciary net position	19,006,189	(303,927)	18,730,278	54,145,128	(20,147,124)				
Plan fiduciary net position – beginning	300,240,867	319,247,056	318,943,129	337,673,407	391,818,535				
Plan fiduciary net position – ending (b)	<u>\$319,247,056</u>	<u>\$318,943,129</u>	<u>\$337,673,407</u>	<u>\$391,818,535</u>	<u>\$371,671,411</u>				
County's net pension liability – ending (a) - (b)	<u>\$ 27,760,679</u>	<u>\$ 53,306,496</u>	<u>\$ 48,883,955</u>	<u>\$ 18,880,629</u>	<u>\$ 64,743,019</u>				
Plan fiduciary net position as a percentage of the total pension liability	92.00%	85.68%	87.35%	95.40%	85.16%				
Covered-employee payroll	\$106,720,140	\$113,715,757	\$111,592,771	\$114,628,351	\$114,978,362				
County's net pension liability/(asset) as a percentage of covered-employee payroll	26.01%	46.9%	43.8%	16.5%	56.3%				

This schedule is present to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, information for those years for which information is available is shown.



Schedule of County Contributions Last 10 Fiscal Years

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>20xx</u>	<u>20xx</u>	<u>20xx</u>
Actuarially determined contribution	\$ 9,322,239	\$ 10,624,062	\$ 11,430,630	\$ 11,525,795	\$ 12,066,795			
Contributions in relation to the actuarially determined contribution	\$10,000,000	\$ 9,400,000	\$ 12,035,000	\$ 12,215,000	\$ 15,619,704			
Contribution deficiency (excess)	<u>\$ (677,761)</u>	<u>\$ 1,224,062</u>	<u>\$ (604,370)</u>	<u>\$ (689,205)</u>	<u>\$ (3,552,997)</u>			
Covered-employee payroll	\$106,720,140	\$113,715,757	\$111,592,771	\$114,628,351	\$114,978,362			
Contributions as a percentage of covered-employee payroll	9.37%	4.27%	10.78%	10.66%	13.58%			

Notes to Schedule

Valuation date

January 1, 2014

January 1, 2015

January 1, 2016

January 1, 2017

January 1, 2018

Actuarially determined contribution rates are calculated as of January 1, one year prior to the end of the fiscal year in which contributions are reported

Methods and assumptions used to determine contribution rates:

Actuarial cost method

Entry age

Amortization method

Level dollar

Remaining amortization period

25 years

Asset valuation method

Market value adjusted for unrecognized gains and losses from prior years

Inflation

3.0%

Salary increases

4.0% average, including inflation

Investment rate of return

7.25%, net of pension plan investment expense, including inflation

Retirement age

Age 60 or 55 with 20 years' service

Mortality

2013 RP Annuitant and Non- Annuity Mortality Table for males and females with no projected improvement



Schedule of Investment Returns Last 10 Fiscal Years

<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>20xx</u>	<u>20xx</u>	<u>20xx</u>	<u>20xx</u>
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Annual money-weighted rate of return, net of investment expense

6.67%	1.00%	6.70%	16.19%	(4.12)%				
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This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, information for those years for which information is available is shown.



**York County Pension Expense (Income) for the
Measurement Period 2018**

Sum of Components Method	
1. Service Cost Includes Expected Member Contribution	\$ 11,360,395
2. Member Contributions	\$ (6,347,246)
3. Administrative Expenses	\$ -
4. Interest on the Total Pension Liability	\$ 30,372,926
5. Projected Earnings on Plan Investments	\$ (28,286,449)
6. Expensed Portion of Current-Period Difference Between Expected and Actual Experience in the Total Pension Liability	\$ (57,604)
7. Expensed Portion of Current-Period Changes of Assumptions	\$ 2,000,636
8. Expensed Portion of Current Period Differences Between Actual and Projected Earnings of Plan Investments	\$ 7,811,196
9. Benefit Change	\$ -
10. Other	\$ -
Total Pension Expense	\$ 16,853,854
Change in Balance Sheet Method (excluding changes due to employer contributions)	
1. Change in NPL	\$ 45,862,390
2. Change in Deferred Outflows of Resources	\$ (39,085,822)
3. Change in Deferred Inflows of Resources	\$ (5,542,418)
4. Employer Contributions	\$ 15,619,704
Total Pension Expense (Income)	\$ 16,853,854



**Change in Deferred Inflows/Outflows for the
Fiscal Year Ended December 31, 2018**

	<u>Total Pension Liability</u>		<u>Plan Fiduciary Net Position</u>		<u>Assumption</u>		<u>Total</u>
	<u>Outflow</u>	<u>(Inflow)</u>	<u>Outflow</u>	<u>(Inflow)</u>	<u>Outflow</u>	<u>(Inflow)</u>	
1. Deferred (Inflow)/Outflow of Resources as of January 1, 2018	\$ 4,219,764	\$ (3,345,344)	\$ 10,249,395	\$ (24,127,573)	\$ -	\$ -	\$ (13,003,758)
2. Differences Between Expected and Actual Experience for 2018	-	(1,674,234)	45,053,202*	-	11,003,500	-	54,382,468
3. Portion Recognized in 2018 Pension Expense	<u>1,127,155</u>	<u>(1,184,759)</u>	<u>13,843,089</u>	<u>(6,031,893)</u>	<u>2,000,636</u>	<u>-</u>	<u>9,754,228</u>
4. Deferred (Inflow)/Outflow of Resources as of December 31, 2018: (1) + (2) - (3)	\$ 3,092,609	\$ (3,834,819)	\$ 41,459,508	\$ (18,095,680)	\$ 9,002,864	\$ -	\$ 31,624,482
5. Change in Deferred (Inflow)/Outflow of Resources as of December 31, 2018: (4) - (1)							\$ 44,628,240
* Determined as follows:							
1. Projected Earnings on Plan Investments for 2018			\$ 28,286,449				
2. Actual Earnings on Plan Investments for 2018			<u>(16,766,753)</u>				
3. Difference Between Expected and Actual Experience for 2018: (1) - (2)			\$ 45,053,202				



**Pension Expense and Deferred Outflows of Resources
and Deferred Inflows of Resources Related to Pensions**

For the 2018 measurement period, the County recognized pension expense (income) of \$16,853,854 and amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended:	
2019	\$ 9,754,228
2020	5,506,276
2021	4,578,153
2022	10,937,709
2023	848,116
Thereafter	<u>0</u>
Total:	\$31,624,482

Payable to the Pension Plan - For the 2018 measurement period, the County had no outstanding amount of contributions to the pension plan required for the year ended December 31, 2018.



Schedule of Deferred Inflows and Outflows

		Recognition Period	2018	2019	2020	2021	2022	2023	2024	2025	2026
<u>Actual/Expected Experience*</u>											
Year	Difference (Actual vs. Expected)										
2018	(1,674,234)	5.5	(304,406)	(304,406)	(304,406)	(304,406)	(304,406)	(152,204)			
2017	2,154,502	5.6	384,733	384,733	384,733	384,733	230,837				
2016	(5,106,050)	5.8	(880,353)	(880,353)	(880,353)	(704,285)					
2015	4,677,261	6.3	742,422	742,422	742,422	222,729					
Total			(57,604)	(57,604)	(57,604)	(401,229)	(73,569)	(152,204)			
<u>Actual/Projected Earnings</u>											
Year											
2018	45,053,202	5.0	9,010,640	9,010,640	9,010,640	9,010,640	9,010,642				
2017	(30,159,466)	5.0	(6,031,893)	(6,031,893)	(6,031,893)	(6,031,894)					
2016	2,922,493	5.0	584,499	584,499	584,497						
2015	21,239,750	5.0	4,247,950	4,247,950							
Total			7,811,196	7,811,196	3,563,244	2,978,746	9,010,642				
<u>Changes in Assumptions*</u>											
Year											
2018	11,003,500	5.5	2,000,636	2,000,636	2,000,636	2,000,636	2,000,636	1,000,320			
2017											
2016											
2015											
Total			2,000,636	2,000,636	2,000,636	2,000,636	2,000,636	1,000,320			